

Shortly after Gov. Snyder announced his new budget proposal, a film called the Avengers left Michigan and went to Ohio. The Avengers is a very high profile sequel to the Iron Man movies, starring Robert Downey Jr., Scarlett Johansson and Samuel Jackson. It was set to spend \$33 million in production in our state. Based on the recent Ernst and Young study, that would have meant \$25 million generated in Michigan salaries and \$72 million in economic activity. Instead, that \$72 million in economic activity walked out of our state and - of all places - went straight into Ohio, where their governor gleefully exclaimed, "We won another one from Michigan!"

I share this story because in it lies much of what I hope to explain to you today.

By way of quick background, I was one of the initial architects of this film-tv-digital incentive program. I testified up here many times three years ago. I make no money from these incentives. I've never been paid a cent from them. My projects will get made whether we have a program here or not.

So why do I bother, you ask? Because I live here. Because like you, I love and am loyal to my state. Because I was bothered

seeing “Tuesdays With Morrie” – about a Michigan man – shot in Pasadena. Or seeing Heaven in the “Five People You Meet In Heaven” shot in Vancouver. Ideas that were created here and inspired here, were made elsewhere, putting other states to work – all because of incentives. I was tired of hearing that Silicon Valleys could only prosper in California soil. Why not Michigan, I said? Many others said the same thing.

The idea of these incentives was to compete in unique industries, ones that don’t care about a corporate tax rate, but instead follow incentives and young talent and educational centers. The plan was simple: lure the work here with incentives, train a workforce, build infrastructure, show what talented and dedicated people we are in Michigan. And eventually, say in five years, once the industry was settled in, adjust the program’s payout.

Well, it worked. Or I should say it was working. The film and tv business alone grew from 2 million to 225 million in two years – a 100 fold increase. It is impossible to find another industry that has done the same in this state. The infrastructure grew. Several new studios, including a state of the art facility in Pontiac. Human resources grew. Over 11,000 jobs for Michigan residents in two years. 11,000 jobs that would not have otherwise existed. For once, young people were moving back here from the coasts, instead of

the other way around. Schools opened. Video game and digital media companies sprouted. We were about halfway towards our goal, leading the nation in these young, lucrative, multi-media fields - when last month, the tablecloth was yanked away.

Only unlike in the movies, the plates and silverware did not remain in place.

Members of the house, respectfully, we are in a crisis. A crisis of business, of reputation, and of our future. We invited industries to come try us, then said, “sorry, we changed out mind.” We told our own people “invest money in our new program”, then said, “oops, program’s gone.” We told our children, get educated here, train here, stay here – now we’re saying sorry, nothing for you here, see ya. Trust and continuity must be part of any business climate, right?

Well, we shot continuity and exploded trust. The first part of my opening story? \$72 million in economic activity out the door? That’s just snowflakes on the mountain. A new Superman movie, a new Batman movie, and a new HBO miniseries all went running after Governor Snyder’s announcement. This week, three more films including Spy Kids 4, which was going to do computer

graphics here – not acting, computer digital work – are leaving due to the confusion and dire predictions for Michigan’s budget. The HBO TV series “Hung”, whose opening credits are a 30 second montage of Detroit and the suburbs, will leave and shoot elsewhere after this week. The economic loss on these projects alone is over \$125 million in Michigan-spent dollars. With the multiplier effect, \$100 million worth of Michigan salaries and some \$300 million in economic activity is walking out the door. 300 million gone – in a few weeks? In a state like ours, that should get our attention.

Sadly, it is too late to save any of these green shoots of business. So why am I here? Because it is not too late to save the soil they were planted in. I hope to evidence that in the next few minutes, and dispel some myths along the way.

I stand here as a spokesperson for thousands of workers in a wide swath of industries – none of them Hollywood movie stars, all of them Michigan residents. This is not about LA, it’s about Detroit, Ann Arbor, East Lansing - not about Tom Cruise, but about Tom Algonac, Tom Traverse City, Tom Grand Blanc. I stand here on behalf of our hotels, our restaurants, our lumber yards, our new video game companies, our new studios, our educational programs from University of Michigan in Ann Arbor to Compass Films

Academy in Grand Rapids. Here is Myth No. 1 all of them would all like to dispel:

That they are only interested in their own pockets and don't care about the state's economic perils.

This is simply untrue. It was because of the economic perils that we created these incentives in the first place. No one who sat on the original committee for these incentives was from out of town. No one from Hollywood was whispering "Here's how you do it – haha, this will make us rich!"

Quite the contrary. This program was devised by Michiganders, sponsored into legislation by Republicans, and voted nearly unanimously by men and women in these buildings just three years ago. The idea was to build industries – and become the multi-media epicenter of the Midwest, what suburban Boston did with high tech and what northern California did with computers.

We want to save that - and not by drowning the state's finances. Contrary to some accusations, these media incentives do not take money from children or poor people or education – in fact, you

could argue they do just the opposite. They give jobs to people, dreams to children and direction to students.

But yes, they cost money. They were never designed to return more tax money to the coffers than they cost – any more than a road does or a public park does or a school does. We still build those – why? Because they are for a common good. Well, this is for a common good. And a common future. And yes, they cost, but I am here today to propose a way they could cost significantly less – and still be attractive on a national scale.

I have a one sheet that is the result of many people working for weeks together to amend this program – amend it, don't end it. Let that be a slogan, if you don't mind: Amend, don't end. These people I am here for represent all elements of the industry from around the state. This is a blueprint, and good faith evidence that the right answer on the film/tv/diigital incentives is to work 'em out, not throw 'em out. That could be a slogan too - if you don't like the first one.

OK. To the nitty gritty numbers.

- The program currently gives from 30 percent up to 42 percent in rebates on what you spend here in Michigan - depending on if you're from here or from out of town and where you work or film. The real overall rate we give back comes out to not 42 cents on the dollar, as critics often say, but 36 cents. 36 cents.
- We propose to make that lower by dropping the rates 12.5 percent across the board immediately, and by 25 percent in two years on work done by out of staters. This would mean, for example, a new rebate incentive rate of 35 percent for Michigan workers, down from 40, and 25 percent for non-Michigan workers, dropping to 20 percent in two years as our workforce gets more skilled. This will not only save us money, it will make Michigan labor that much more attractive, which is the point of the program. It would also keep the dollars in the state, where they generate the most activity and pay the most tax.
- We also propose to cut IN HALF the maximum amount any one worker could claim from 2 million to 1 million. Those who complain that we are subsidizing Brad Pitt might make note of that. The film might be paying him \$20 million, but only 1 million max could be used against a credit here, or

\$350,000 total, on which he would have to pay tax. Same goes for any high priced director.

- We also propose to limit producer fees to no more than five percent of the total budget, unless they are Michigan residents, in which case the figure would be ten percent. Right now we have movies that are paying high sums to their producers, at times as much as 20 percent of the above the line budget. These producers sometimes spend the least amount of time here. In the interest of rewarding new workers and Michiganders, we feel this harsh cut is justified.
- We also propose to cut the rate that companies get for using Michigan goods and services from 40 percent down to 35 percent, another 12.5 percent slash. We also propose to eliminate the pass-through clause, which allows companies to order products from other states, pass them through a rubber stamp in Michigan, and deduct it as a qualified Michigan purchase. No more..
- -We would leave the 2 percent bump for filming in more dire core communities, as this has been very effective, and we would propose including commercials, with some tight parameters, at a 30 percent rate to start, because commercial work was supposed to be part of the original program, and if

done right is very Michigan efficient, and a business we once ruled and should have back.

What do all these cuts mean? In the film and TV world, the net effect would save us over 20 percent of what we have been paying to this point in the program. In 2010, that would have meant a savings of 24 million dollars from the tax coffers. In two years, we would have shaved over 30 percent, and in 2010, that would have meant 34 million in those same coffers. This new, tighter program would get us closer to an acceptable return on investment – even to harsh critics – and it would put the emphasis where it belongs, on employing Michigan people and developing Michigan talent.

And yet, thanks to the precision nature of the cuts, this new program would still keep us competitive – and this cannot be overstated. There is no point in us or anyone else proposing something that gets the budget analysts to go “Yeah. Now you’re talking” but has the actual businesses saying “Nah, now we’re walking.”

As you have all heard, movies, tv and digital are highly competitive industries. They can be – because there are more than 40 states offering them incentives. Louisiana, Connecticut, Georgia – just to name a few – are close to what we offer. Our idea when

we created ours was to be the best, because we knew to be No. 8 or No. 12 was useless. If you want proof, simply go back four years. Michigan had an incentive then. Did you know that? It was about 12 percent. You know how much business we got? This much. 2 million total. As soon as we put in the new program, that figure ballooned to 225 million - in two years!

We knew we needed a top rate to get people to come to a state perceived as freezing cold, labor costly and untrained in these media industries. After less than three years, those perceptions have changed. Films and TV shows rave about this state. They love our attitude. They love our landscape. Every year of the program, the percentage of Michigan hires increases per project. There is a reason the Avengers and the Batmans were just now willing to come here. They didn't come the first two years – even though we offered the same incentive. Why? They needed to know we had workers who knew what they were doing. We finally have that– and we now risk putting those very people on the unemployment lines – or worse, taking busses out of town. Unless we stay near the top, there is no point in having a program. I can't say that enough. And unless we can insure continuity, there's no point in having a program. Scared business is no business. And we have scared – and are scaring – business away.

We implore this body to urge the administration to reignite the program in some way while the budget is being debated. Right now, if you call the Michigan film office, wanting to bring a project here, they can't tell you anything. It's like having an "out to lunch" sign on the door.

Which brings us to another assumption that I would like to correct: that an appropriation will work.

Representatives of the house, I am here to tell you, it will not. We certainly understand Governor Snyder's desire to keep things simple, make everything an appropriation. Perhaps it works for some industries. It will not for these.

This program must remain an incentive, part of our tax laws on the books. Here is reason No. 1, 2 and 3 – Films and TV shows take a while to set up, months and months of planning. Nobody will do that in a state where they are unsure if money will be left by the time they apply. An annual appropriation creates a dash for cash that most reliable companies will back out of. It's too risky. Who gets the last dollars? As they dwindle, you increase the likelihood of favoritism, even graft. Plus, an appropriation needs to be approved every year, which makes long term commitments impossible. Nobody will do business when what's happened these past weeks here could happen every year. No one will build new

studios or set up video and digital companies – the stable, brick and mortar businesses we desire. Won't happen. There is a reason why virtually no state that has been successful in these industries works on an annual appropriation – and we won't either.

In addition, the Governor's proposed \$25 million figure is so small, it would literally create more headaches than projects. No major films will come to fight over such a small pie. A few medium sized films would eat it up, and we'd be done. Any new studios would quickly go out of business – including Raliegh, which spent 60-80 million to build. That place would be another white elephant in Pontiac, our worst kind of eyesore, a structure built on dreams and decaying on failure.

This cannot work with an appropriation – not a \$25 million one or a 50 or 100 million one. I believe the governor when he says he does not wish to pick winners and losers, but inadvertently, he has done just that. The winners are businesses that thrive with a low corporate tax rate. They have won big, they save 1.8 billion dollars, and that's good; all of us hope they thrive.

But certain industries – like the three main ones here – don't care about corporate tax rate. You could have zero corporate tax and it won't get them here. For better or worse, these are industries that seek out and thrive in incentive states. We may not like the idea. Maybe it makes them “different.” But they are also different in

many good ways. They can set up shop quickly – as opposed to plants that take years. They are green. No smokestacks. They are high tech. They love young people and young people love them. And they are growing. An important word. Growing. We are so used to words like “shrinking” and “less than.” Our car business. Our manufacturing business. Our population.

I don’t need to remind you that Michigan is the only state in America that lost population over the last 10 years. The only state. And our business tax climate was rated 17th best in the country. Yet we can’t keep people. South Dakota, the No 1 business tax climate, also lagged behind the national average in growth for the last decade. This teaches us that low corporate taxes cannot solve every problem. We have a real problem keeping young people here. These industries do that. These industries are so attractive, they get people to move here even without jobs.

If you don’t believe me, ask yourself this question. If Los Angeles suddenly announced that it was closing down its film and TV businesses, they were all leaving the state, do you think the only people who would move out of LA would be working actors and directors? How about all the waitresses and shoe salesmen who moved to LA IN THE HOPE of getting into those businesses? How about every parking lot attendant or video store clerk who is working on a screenplay at night? These people are never counted

in the studies, but they are real. They eat, sleep, work and pay taxes in areas where video games are being designed and where films are being edited. They want to be close to it. Close to their dreams. The Silicon Valley of midwest entertainment? It sounds crazy, until you think – why northern California? With its terrible tax rate and expensive housing? Why did northern California become such a mecca? Because there was Stanford, and because there were startups and suddenly, everyone just came there. Like a gold rush. They put up with traffic, taxes, high rent – just to be part of where it was all happening.

Well, we have U of M with its international reputation, Michigan State with its excellent programs, Grand Rapids with its sterling growth record, CCS in Detroit, part of the new creative corridor. We potential epicenters of young creative talent. And you know what? You will never even account for their size in studies.

Which brings me to my final points. Studies. You have heard them. You are probably confused by them. Why does an Ernst and Young study suggest these business are fantastic for the state, they put back six times what they pay out – while a Senate finance study makes more dubious claims of limited returns?

The big problem is its impossible to accurately study. For one thing, how do you measure the ripple effect when the set designer

orders 50,000 worth of lumber and the lumber company then hires two extra people and those two people buy a house and the builders of those houses hire more laborers, etc? How do you measure all the rental cars and hotels and meals and per diems? How do you account for jobs that may work you for seven weeks, yet allow you to make an average of \$50,000? In some studies, they count that as one sixth of a job. But I know a lot of Michiganders who would be happy to work one sixth of a year for those rates.

You will never rectify all studies. I do believe the Ernst and Young version is the most comprehensive, it is the latest, has the most real data, and studied all elements. But even the author of the Senate Fiscal report, the most critical of this program, admitted that the industry is good for the state from job growth and perception standards.

And aren't those two things huge? Without jobs, our future is doomed, no matter what the corporate tax rate. Well, this is about jobs - 11,000 in two years. This is about perception. How can you put a price tag on people thinking Michigan is a cool place to visit? Think of what you know about London or Beijing or Sydney. Now ask yourself how many times you've been there? If the answer is

none, how do you know what it looks like? Movies. TV. Stories told there. How many people think Hawaii now because of the new Hawaii Five O? How many know about Miami through CSI? In our own backyard, they are still taking tourist dollars at the Grand Hotel on Mackinaw Island from one movie – Somewhere in Time – which was made 30 years ago.

We have a rust belt image that has cost us over the years. Nothing can change that better than these media/digital industries. These incentives, and I'm quoting here now "have generally exhibited a positive private sector impact in the form of creating employment and generating revenue...The relationship of costs to benefits is a decision for individual policy makers."

You know who wrote that? The author of the Senate Fiscal Agency Report– the most critical report ever on these programs.

He's right: they have a positive impact, and they are a decision for policy makers. You are those policy makers. And since this is a tax committee hearing, I will end on a numerical note.

The best report on these industries shows that for the 36 cents on the dollar going out, we get back a little less than 30 percent of that directly in taxes. That's the most positive. The most critical report said that, for 2009, we got back 21 percent of what we paid out. Either way, the program as it is returns a chunk of money directly to the tax coffers, and then creates stimulated economic ripples,

salaries, and jobs. With the proposal we have offered here, that revenue gap will close more, Michiganders will work more, and we have a chance to salvage a business reputation that just took a bloody nose.

We do not come to be contrary. This is not a conservative versus liberal thing. This is not a criticize Gov Snyder thing. I do not endorse that and I don't believe anyone responsible does either. I understand why everyone wants to trim costs, and why everyone whose costs are being trimmed feels their cause is worth restoring. I can only tell you, if we leave things as they are proposed in the budget, three years will have been wasted, there will be an exodus of young talent, many our own children who will feel betrayed by promises we made, our word in the business community will be highly suspect, and these industries will be gone, gone – the multi billion dollar movie and television industry, and the video game and digital production industry which is five times the size of movies and music put together.

We should not let them walk away. We should not be watching Ohio governor's coo over stealing another one from Michigan. We are here to work with the legislature and the governor, to use this proposal as common ground, to sit with members of this house

and this committee and exchange thoughts and further ideas.
Amend it, don't end it.